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CONSOLIDATED CINOLA MINES LTD.

**Annual Report
1979**



Silverman, Heller Associates

Kenneth L. Stroden

70 Pine Street, New York, New York 10005/Tel: 212-344-1810

CONSOLIDATED CINOLA MINES LTD.

Officers and Directors

Angelo Tosi, *Chairman*
Kenneth G. Sanders, P. Eng., *President, C.E.O. & Director*
Reno Calabrigo, *Vice President*
George Sanders, *Vice President*
Nola Peterson, *Secretary & Director*
William R. Green, Ph.D., *Director*
Ivon H. Shearing, *Director*

Senior Staff

Leslie Kaye, *Chief Geologist*
Allan MacKillop, *Project Manager*

Box 128, Port Clements

Solicitors

Swinton and Co.
1300 1090 W. Georgia St.
Vancouver, B.C.
Milgrim, Thomajan, Jacobs & Lee
405 Lexington Ave.
New York, N.Y. 10017

Exchange Listings

Vancouver Stock Exchange
Symbol CSZ
N.A.S.D.A.Q.
U.S. O.T.C.
Symbol CCIMF

Bank

Toronto Dominion Bank
Hastings & Hornby
839 W. Hastings St.
Vancouver, B.C.

Registrar and Transfer Agent

Crown Trust Company
700 - 800 W. Pender St.
Vancouver, B.C.

Direct Inquiries To:

George Sanders, Vice President
711 - 543 Granville St., Vancouver, B.C.
(604) 669-1524

Head Office: 711 - 543 Granville St., Vancouver, B.C.

Registered Office: 1300 1090 West Georgia St.

Authorized Capitalization: 5,000,000

Shares Issued: 3,675,226

President's Report



Significant financial and corporate developments marked 1979 as the most outstanding year in the Company's history. In January 1979, the Company sold 700,000 Treasury shares to net \$1,151,418.25. These proceeds enabled us to expand our facilities on the Queen Charlotte gold deposit and accelerate our diamond drill program.

The results of the drill program encouraged the interest of several major companies culminating in a Joint Venture Agreement with Energy Reserves Canada, Ltd. Energy Reserves Canada, Ltd. is a wholly owned subsidiary of Energy Reserves Group, Inc., a resource growth company from Wichita, Kansas.

The agreement calls for Energy Reserves to spend \$5 million on exploration and development of the property. This will bring the deposit through the completion of a feasibility study and earn Energy Reserves a 50% interest in the property. Following the \$5 million expenditure the joint venture will continue on funds provided or arranged by Energy Reserves,

including the senior financing necessary to place the deposit in production. Cinola will retain a 50% interest and will continue as operator of the program.

We are confident that this agreement is mutually equitable and facilitates rapid development of the property. The aggressive, growth oriented corporate philosophy of Energy Reserves is most commendable. We felt that this attitude would best meet the expectations of you the shareholders. This philosophy is best illustrated by the rapid acceleration of the work program. Since entering into the Joint Venture Agreement more work has been done on the property in six months than all the work since the deposit was discovered. The program is now well into the preliminary feasibility stage and our goal is to complete exploration and development work by early 1981.

Several other events marked 1979 as a significant year. The financing in January 1979 enabled us to purchase clear title to the Queen Charlotte Property. A final

payment of \$390,000.00 was given to Efrem Specogna to complete our purchase of the property.

New funds were received from the Provincial Government through the Mineral Exploration Incentive Program. We received \$27,000.00 being 30% of the \$90,000.00 worth of work completed in 1978. A further \$40,000.00 was received from the sale of the Midnight Crown granted claim near Rossland, B.C. The Midnight property had been dormant for several years and with respect to the Queen Charlotte property was a relatively insignificant Company holding.

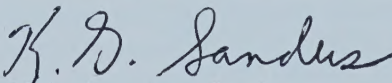
In July of the past year the common stock of the Company was listed on N.A.S.D.A.Q. for over the counter trading in the U.S.A.

A number of senior appointments have been made by the Board of Directors. In April of 1979 William R. Green, Ph. D. and Angelo Tosi were elected to the Board. Dr. Green is a professor of mining geology at the University of Idaho and his technical experience is a

welcome addition. He also sits on the Joint Venture Management Committee. Mr. Tosi, also elected Chairman of the Board, is a successful Vancouver businessman and the largest individual shareholder in the Company. Mr. Tosi played an instrumental role in many previous financings. Appointed as Vice-Presidents were Mr. Reno Calabrigo and Mr. George Sanders.

The events of 1979 have given us a great deal of confidence for the future. We look forward to an even faster moving program on the property. We anticipate completing our grid drilling this summer and commencing final feasibility studies before the year end. Our confidence and optimism leads us to believe that we could be ready for a production decision in early 1981.

On Behalf of
The Board of Directors


K.G. Sanders, P. Eng.,
President and
Chief Executive Officer.

Glossary of Terms

The terms listed below will aid in the understanding of a mineral exploration program. It should be noted that the definitions below are generally applicable but have been adapted slightly for reference to the Queen Charlotte property. They are intended simply to give the layman an understanding of an engineering program.

Assay An assay is the chemical analysis of diamond drill core or rock samples. The sample is broken down chemically in the laboratory to determine the concentration of the mineral sought. Gold and Silver analyses are performed by "Fire Assay" which includes laboratory smelting of the sample.

Claim A claim or unit entitles the owner to the mineral rights enclosed within the claim boundaries. A claim or unit forms a 500 metre square.

Deposit Mineralized rock in the ground is known as a deposit. This term does not imply size, grade or profitability. A deposit is not necessarily an ore body.

Diamond Drilling Diamond drilling is so named because the face of the drilling rod that actually cuts the rock is studded with diamond chips. Continuous long cylindrical lengths of rock, like sections of broom handles, are trapped in a core barrel which is housed inside hollow rods. The turning rods put pressure on the drill bit to force it down through the rock. The rock removed from the drill hole is called core. Drill core is examined by the geologist, and split into two halves. One half is sent to the assayer while the other half remains behind for records.

Feasibility Study Economic projections based on the intensive investigation of data by independent engineers is known as a feasibility study. The study encompasses all pertinent information and concludes with recommendations on which production decisions can be made.

Grade The grade is the concentration of mineral per unit of rock, usually one ton. Low grade and high grade is determined by the price of

the mineral as well as the concentration. Grade and tonnage are usually inversely proportional. Low grade deposits tend to be large while high grade deposits are smaller and more concentrated.

Metallurgy For our purposes metallurgy is defined as the methods used to economically extract gold from the rock. Metallurgical testing not only investigates recovery percentage but also the cost of recovery techniques. The mill design will be based on the technique that recovers the most gold for the lowest cost.

Mill Large pieces of rock taken from the open pit mine are put through a mill to process the mineral. The rock is crushed and ground to a powder. For gold extraction, the powder is usually introduced into a weak cyanide solution which dissolves the contained gold. Zinc dust is added later to precipitate the gold out of solution. A flotation system can also be used whereby particles of gold are floated on the bubble of a froth. One of the positive features of gold is that mill concentrate can be smelted or refined (essentially burned) to produce a finished product at the mill site.

Ore Ore and an Ore body are things that an exploration program hopes to discover and prove. Ore is rock from which minerals can be recovered profitably. It should be further understood that not all rock within an ore body is ore because it may not be economic. Until a mining operation is justified Cinola's property must be referred to as a deposit or mineralized zone.

Tonnage & Ore Reserves Tonnage is quite simply the size of the deposit. For exploration purposes a distinction is made when discussing tonnage. Proven tonnage differs greatly from possible or indicated tonnage. Proven tons are calculated based on very closely spaced diamond drilling and are called "Drill Proven". Close spacing allows for more detailed information. When the drill spacing is not so close the term possible tonnage is used. Extrapolation of size based on geologic information can supply a rough estimate of ultimate size.

Highlights from the Queen Charlotte Property

Exploration and development work on the property in 1979 began with an expanded diamond drill program. The purpose of this was to confirm and define the apparent high grade zone located at the bottom of DDH 78-6. The first significant confirmation came in DDH 79-2 which assayed 0.102 oz. gold per ton for 591 feet. This hole was particularly encouraging because lengthy higher grade intersections were encountered at the top of the hole as well as the bottom. After several months of drilling the lower high grade zone was confirmed in 10 holes. The intersections are:

DDH 78-6	78 ft. of 0.860
DDH 78-7	20 ft. of 0.400
DDH 78-8	6.5 ft. of 0.101
DDH 79-1	59 ft. of 0.177
DDH 79-2	65 ft. of 0.263
DDH 79-3	33 ft. of 0.184
DDH 79-7(10)	19 ft. of 0.197
DDH 79-8	55 ft. of 0.209
DDH 79-9	6.5 ft. of 0.092
DDH 79-11	13 ft. of 1.122

Although these higher grade zones might be mined as separate entities we feel at this time they are still within the lower limits of a possible open pit.

Once significant confirmation of the higher grade zone was received the drills were moved from 15 metre spacing back to the 40 metre grid pattern. This was done to close in the space between the 1977 and 1978 drilling and the 1979 zone. Drill holes 79-12 and 79-15 were located in between the two zones and returned grades that should be economic in an open pit mine. Drill hole 79-12 assayed 0.082 oz. gold per ton for 538.1 feet and DDH 79-15 returned an average of 0.065 oz. gold per ton for 511.8 feet.

Drill hole 79-15 was the last completed by the company before the Joint Venture Agreement with Energy Reserves Group, Inc. The new partners supervised two check holes, 79-16 and 79-17. The results from those holes encouraged a quicker drill program. Since the Joint Venture Agreement was signed on August 1, 1979, the two zones have been filled in and a 20,000 ft. diamond drill contract nearly completed.

Highlights Continued

Although final ore reserve figures are premature a preliminary estimate of drill indicated tonnage is 30,000,000 tons grading 0.06 oz. gold per ton to the end of 1979. It should be pointed out that this estimate is based on grid pattern diamond drilling which covers only half of the known mineralized zone.

Preliminary metallurgical testing has indicated that significant amounts of gold can be recovered inexpensively. Much more investigation is required, however, before a final recovery figure will be known. That investigation and further diamond drilling will produce an ultimate grade and tonnage estimate.

Following the Joint Venture Agreement, much time and money was spent on geological analysis. The area of the deposit is underlain by relatively young, gently dipping rock assemblages cut off by the Sandspit Fault, a major fault system, which trends northwest through the property. Sandstone

and overlying shale members of the Haida Formation of Cretaceous age, which are overlain by mafic and felsic volcanic rocks of the Masset Formation of early Tertiary age, lie west of the fault. Poorly lithified sands, shale and conglomerate of the Skonun Formation of Mio-Pliocene age occur on the east side of the fault.

The major structural feature on the property is the footwall fault, which strikes northwest and dips about 45° to the east. Rhyolite porphyry, which is commonly brecciated, crosscuts sedimentary units on both sides of the fault.

Significant gold mineralization is associated with a silica stockwork zone and rhyolite intrusive in a sedimentary sequence. There are two types of gold mineralization present, thick moderate-grade stockworks and thin, higher grade veins. The presently documented mineralized section is not a simple sedimentary sequence cut by faulting and quartz veining. There is a volcanic component present, either intrusive or interbedded.

Present camp facilities have been expanded several times to accommodate larger crews. Camp and office facilities now support a full crew of 30 people. In the early fall of last year a 60 ft. by 40 ft. permanent steel building was erected. The building will be used to store core and prepare samples for assaying.

In 1980 the diamond drills will be located to the north of the area already drilled. Preliminary investigation indicates that the northern zone could be very favourable. The major diamond drill program should be completed towards mid-summer 1980.

Planned for 1980 is an underground bulk sample program and 50 tons per day pilot mill. This will allow for the perfection of a milling technique and more firmly establish ore grade.

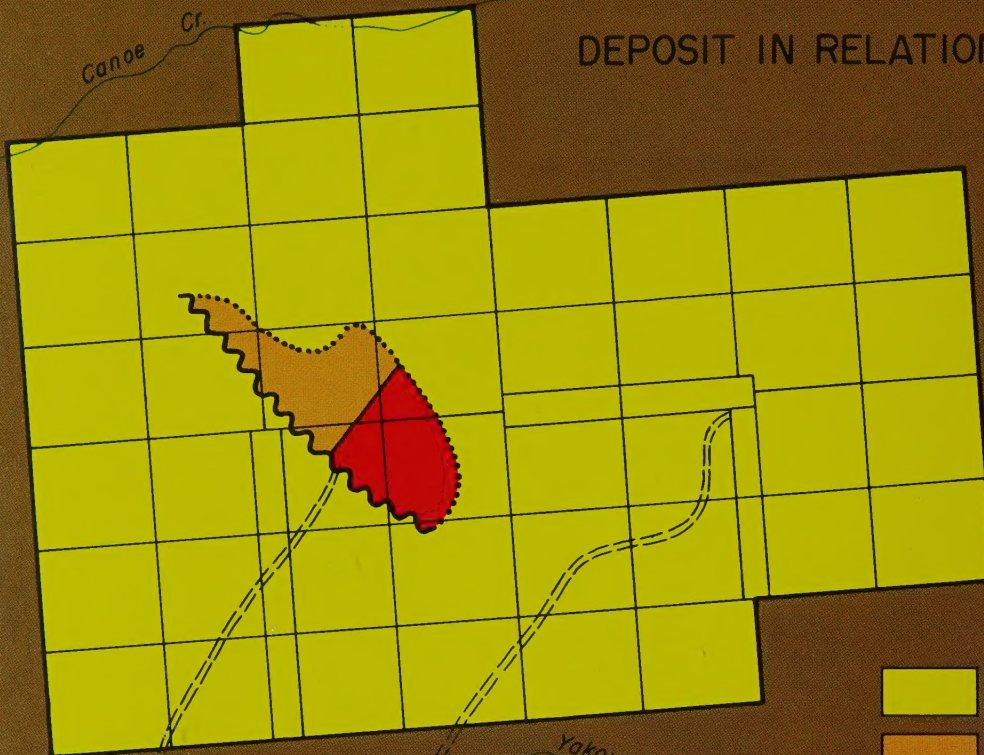
At present preliminary feasibility work is underway on three major components, Metallurgical,




Geological and Environmental. This work is being conducted by senior mining personnel and will continue through to final feasibility. Mountain States Research from Tuscon, Arizona, who have already returned some encouraging metallurgical test results, will be working on mill design. Mr. R.C. Hart, P. Eng., a well known mining geologist, will provide ore reserve estimates. Detailed technical work continues at several North American Universities.

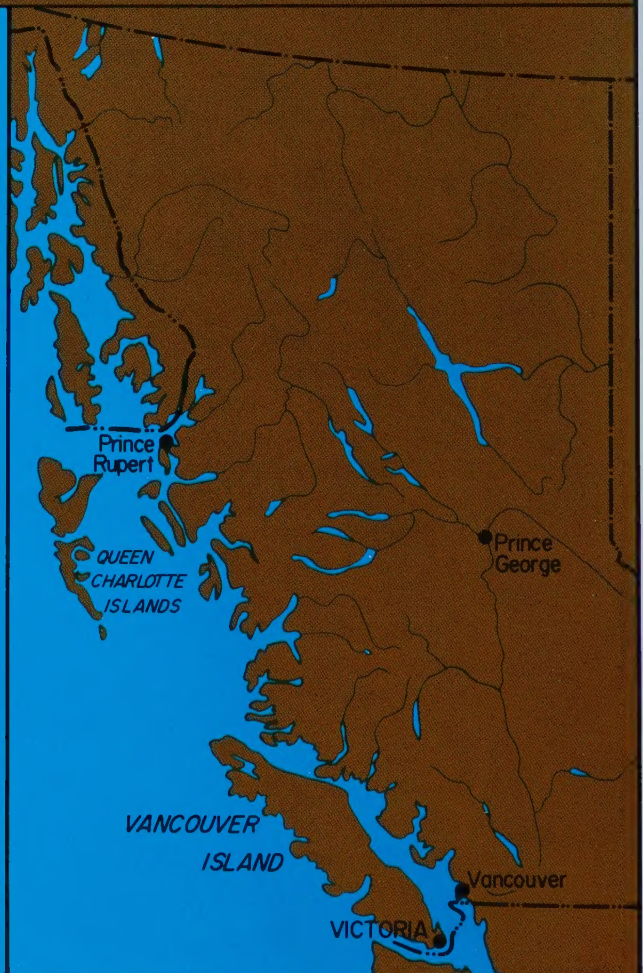
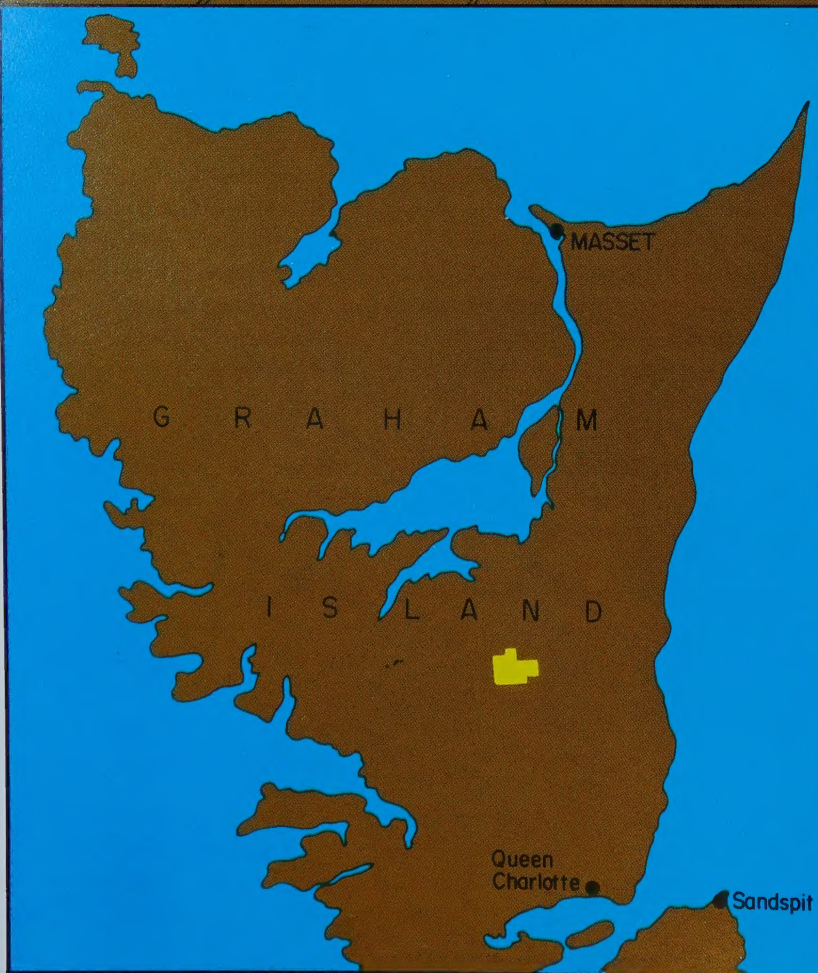
The Joint Venture is confident that the 1980 program will supply data to justify an open pit mining and milling operation of 10,000 tons per day.

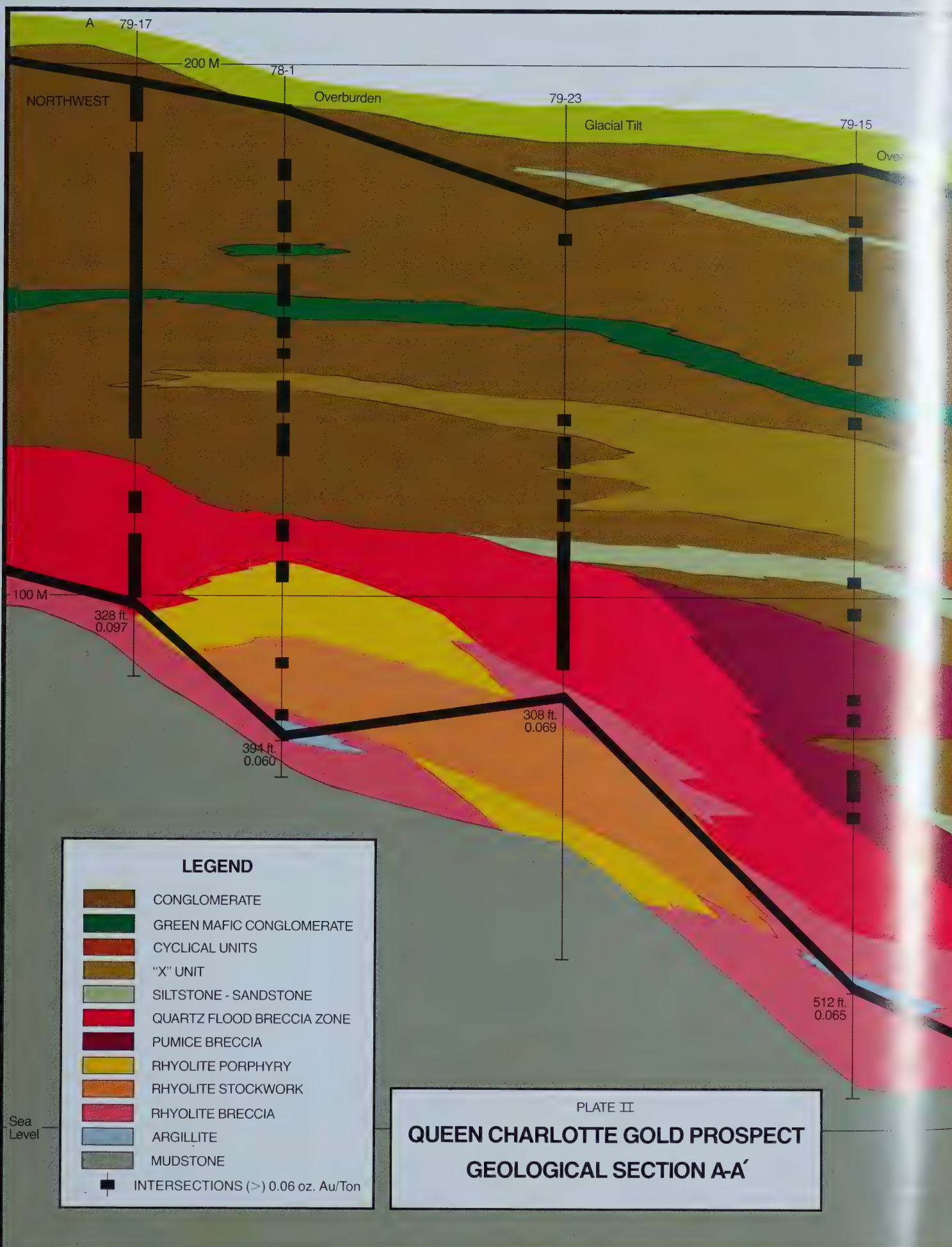
CONSOLIDATED CINOLA MINES LTD.

DEPOSIT IN RELATION TO CLAIM GROUP



-  CLAIM GROUP
-  KNOWN MINERALIZED ZONE
-  AREA DRILLED TO DATE





LEGEND

- CONGLOMERATE
- GREEN MAFIC CONGLOMERATE
- CYCLICAL UNITS
- "X" UNIT
- SILTSTONE - SANDSTONE
- QUARTZ FLOOD BRECCIA ZONE
- PUMICE BRECCIA
- RHYOLITE PORPHYRY
- RHYOLITE STOCKWORK
- RHYOLITE BRECCIA
- ARGILLITE
- MUDSTONE

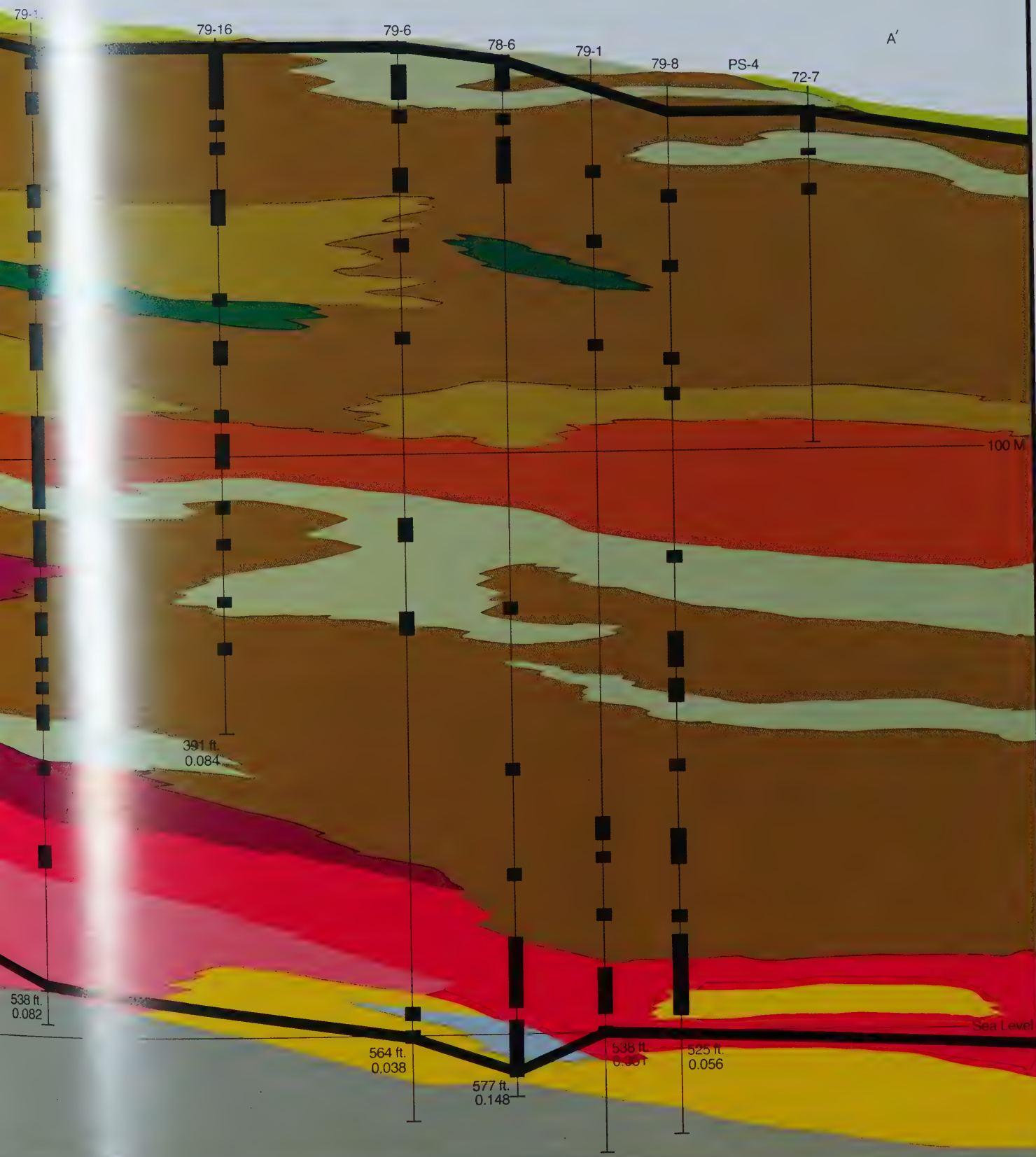
■ INTERSECTIONS (>) 0.06 oz. Au/Ton

PLATE II

**QUEEN CHARLOTTE GOLD PROSPECT
GEOLOGICAL SECTION A-A'**

200 M

SOUTHEAST

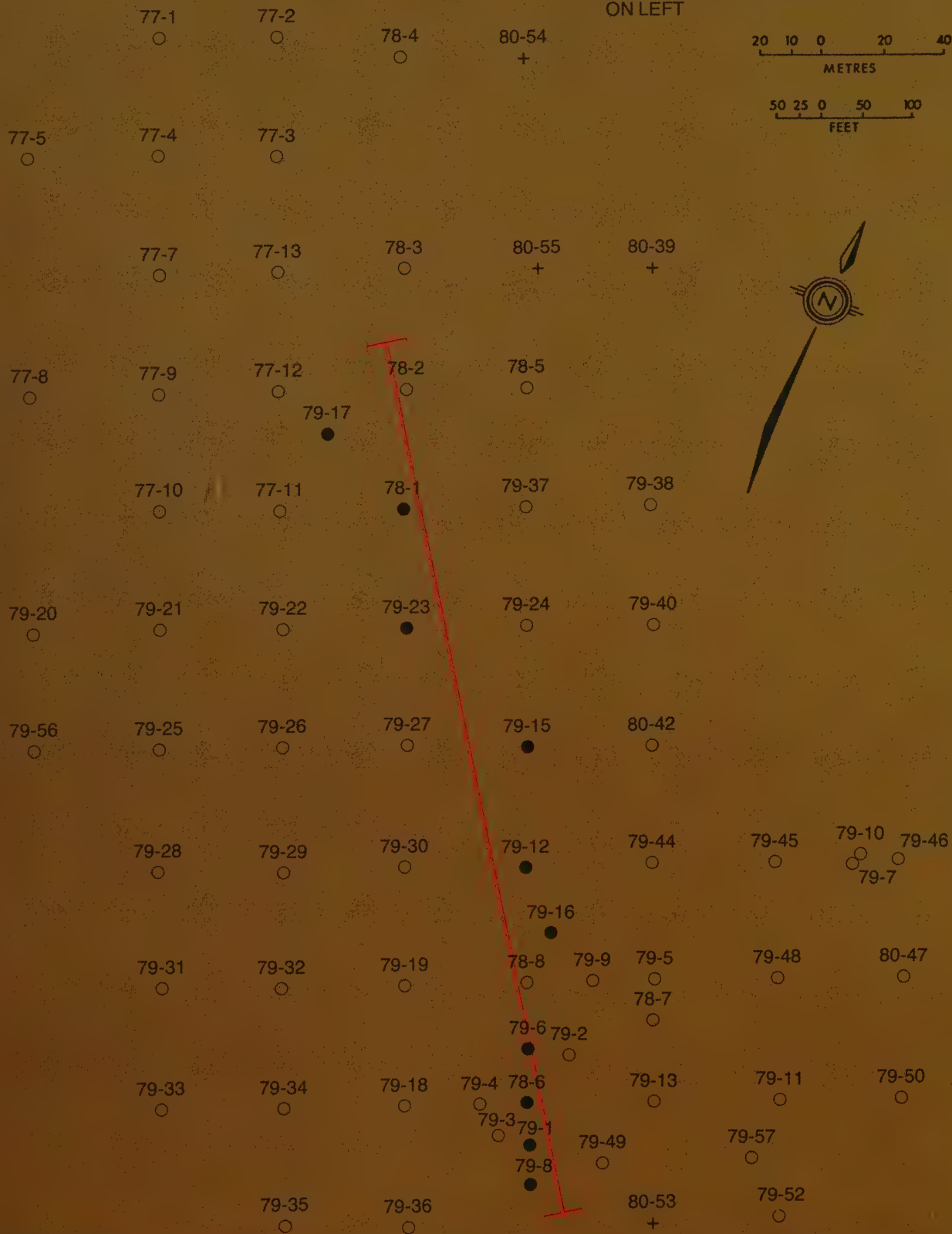


QUEEN CHARLOTTE JOINT VENTURE

DIAMOND DRILL PLAN

D.D.H. STATUS AS OF JAN. 31, 1980

- COMPLETED HOLES
- + PLANNED HOLES
- HOLES SHOWN IN LONGITUDINAL SECTION ON LEFT



AUDITOR'S REPORT

The Shareholders,
Consolidated Cinola Mines Ltd.

We have examined the Balance Sheet of Consolidated Cinola Mines Ltd. as at December 31, 1979 and the Statement of Changes in Financial Position and Schedules of Deferred Exploration, Development and Administration Expenditures for the year ended December 31, 1979. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The Company is engaged in exploration for minerals and its principal assets consist of mineral properties and deferred exploration and development and deferred administrative expenditures, stated at cost. The recovery of these costs is dependent upon the success of future operations.

In our opinion, subject to the recovery of costs referred to in the preceding paragraph, these financial statements present fairly the financial position of the Company as at December 31, 1979 in accordance with generally accepted accounting principles, applied on a basis consistent in application to that of the previous year.

Goodman & Co.



Certified General Accountants

Vancouver, B.C.
February 28, 1980

CONSOLIDATED CINOLA MINES LTD.
Balance Sheet as at December 31, 1979

ASSETS

	December 31, 1979	December 31, 1978
Current Assets:		
Cash	\$ 235,036.88	\$ 15,753.27
Accounts Receivable	—	1,023.22
	<u>\$ 235,036.88</u>	<u>\$ 16,776.49</u>
Mining Properties: (Note 1)		
Mineral Claims, at cost	\$ 613,750.00	\$ 238,750.00
Buildings and Equipment, at cost	<u>\$ 71,726.89</u>	<u>\$ 59,450.39</u>
Deferred Expenses:		
Exploration, Development and Administration	\$ 858,112.78	\$ 748,910.87
Incorporation	2,000.00	2,000.00
	<u>\$ 860,112.78</u>	<u>\$ 750,910.87</u>
	<u>\$ 1,780,626.55</u>	<u>\$ 1,065,887.75</u>

LIABILITIES

Current Liabilities:		
Accounts payable	\$ 95,597.13	\$ 25,464.50
Loans	1,500.00	1,500.00
	<u>\$ 97,097.13</u>	<u>\$ 26,964.50</u>

SHAREHOLDERS' EQUITY

Share Capital: (Note 4)		
Authorized: 5,000,000 shares, no par value		
Issued: 3,675,226 shares	\$ 2,395,614.50	\$ 1,166,696.25
Deficit	(712,085.08)	(127,773.00)
	<u>\$ 1,683,529.42</u>	<u>\$ 1,038,923.25</u>
	<u>\$ 1,780,626.55</u>	<u>\$ 1,065,887.75</u>

Signed on behalf of the
Board of Directors.

 Director

, Director

See accompanying notes.

CONSOLIDATED CINOLA MINES LTD.
Deferred Exploration, Development and Administration Expenses
for the year ended December 31, 1979

	December 31, 1979	December 31, 1978
<i>Exploration, Development and Camp Operations</i>	\$ 1,028,082.77	\$ 131,320.10
<i>Administration and General Overhead</i>	\$ 195,800.75	\$ 45,404.16
<i>Total expense for the year</i>	\$ 1,223,883.52	\$ 176,724.26
<i>Less: received from Energy Reserves Canada Ltd.</i>	\$ 608,093.45	\$ —
<i>Less: interest earned</i>	37,390.11	—
	\$ 645,483.56	\$ —
<i>Net Expense for the year</i>	\$ 578,399.96	\$ 176,724.26
<i>Total Expenses to end of previous year</i>	748,910.87	572,186.61
	\$ 1,327,310.83	\$ 748,910.87
<i>Less: written off to deficit</i>	469,198.05	—
<i>Net Expense to end of current year</i>	\$ 858,112.78	\$ 748,910.87

See accompanying notes.

CONSOLIDATED CINOLA MINES LTD.
Statement of Changes in Financial Position
for the year ended December 31, 1979

	December 31, 1979	December 31, 1978
<i>Funds were derived from:</i>		
Reduction in accounts payable	\$ 4,326.36	\$ —
Issuance of shares	1,151,418.25	195,000.00
Sale of "Midnight" property	40,010.00	—
	<u>\$ 1,195,754.61</u>	<u>\$ 195,000.00</u>
<i>Funds were applied to:</i>		
Exploration, Development and Administration expense	\$ 578,399.96	\$ 176,724.26
Property payments — cash only	397,500.00	30,000.00
Buildings and Equipment	71,726.89	—
	<u>\$ 1,047,626.85</u>	<u>\$ 206,724.26</u>
<i>Increase (Decrease) in Working Capital</i>	<u>\$ 148,127.76</u>	<u>\$ (11,724.26)</u>
<i>Working Capital (Deficiency) at beginning of period</i>	<u>(10,188.01)</u>	<u>1,536.25</u>
<i>Working Capital (Deficiency) at end of period</i>	<u><u>\$ 137,939.75</u></u>	<u><u>\$ (10,188.01)</u></u>
<i>Represented by:</i>		
Current Assets	\$ 235,036.88	\$ 16,776.49
Current Liabilities	97,097.13	26,964.50
<i>Working Capital (Deficiency)</i>	<u><u>\$ 137,939.75</u></u>	<u><u>\$ (10,188.01)</u></u>

See accompanying notes.

CONSOLIDATED CINOLA MINES LTD.
Notes to Financial Statements of December 31, 1979

1. MINING PROPERTIES:

Rossland Property

The Company sold the "Midnight" property, camp and equipment for \$40,010.00. The loss thereon together with related development and administration charges was written off to deficit.

Queen Charlotte Properties

These comprise mineral claims purchased from Kenneth G. Sanders on option from Efreem Specogna. The purchase price has been paid in full.

2. DEPRECIATION

No depreciation has been taken into account.

3. OPERATING AGREEMENT

The operating agreement with Sand Mines Ltd., has been cancelled by the Company issuing to Sand Mines Ltd. 40,000 free trading shares.

4. SHARE CAPITAL

The issued share capital of the Company is as follows:

	No. of Shares	Consideration
For cash	2,984,788	\$ 2,076,689.50
For mineral properties/ agreement	690,438	318,925.00
	<u>3,675,226</u>	<u>\$ 2,395,614.50</u>

**5. REMUNERATION OF OFFICERS
AND DIRECTORS**

Salaries paid to four senior officers and employees amounted to \$52,929.50.

6. LEGAL ACTION

Federated Mining Corporation Ltd. (N.P.L.) ("Federated") has commenced an action against the Company,

which is disputed on a basis that Federated has defaulted under an earlier participation agreement in connection with the Rossland property. There have been no steps taken by the Plaintiff in this connection for more than five years.

7. There are Share Purchase Warrants outstanding which are valid to January 3, 1982 under which 500,000 treasury shares of the Company may be purchased at \$1.00 per share to January 3, 1980, then \$1.10 to January 3, 1981 and then \$1.35 to January 3, 1982. None of the shares purchased pursuant to such Share Purchase Warrants may be sold by the holders prior to January 3, 1980.

By a Stock Option Agreement dated January 12, 1979, the Company granted a five-year option to Kenneth G. Sanders, the President of the Company, to purchase 150,000 treasury shares of the Company at prices commencing at \$3.35 per share and ending at \$4.35 per share. As of the date hereof no part of such option has been exercised.

The option is a Director's option and terminates upon him ceasing to be a Director. It is non-assignable, but may be exercised by his estate within six months of the date of his death should he be a Director at this date of death.

By a Stock Option Agreement dated February 23, 1979, the Company granted a five-year option to Ivon Shearing, a Director of the Company, to purchase 30,000 treasury shares of the Company at prices commencing at \$3.85 per share and ending at \$4.85 per share. This option was exercised on February 12, 1980 and the Company received \$115,500.00.

8. JOINT VENTURE

The Company has entered into a joint venture agreement with Energy Reserves Canada Ltd., whereby the latter will acquire a 50% interest in the Queen Charlotte property upon the expenditure by the latter of \$5,000,000.00.

